

**APPROVED INVESTMENTS FOR  
MONTANA STATE BANKS**

**MONTANA ADMINISTRATIVE RULES**

**2.59.112, 2.59.1601 TO 2.59.1607**

**Effective January 31, 2002**

**ANNIE M. BARTOS  
COMMISSIONER  
Division of Banking and  
Financial Institutions**

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Investments made before the effective date are governed by the rules that may have been in effect on the date of purchase.

These rules address the permissibility of the following investments for Montana state-chartered banks:

U.S. Treasury securities  
STRIPS  
U.S. government agency and government sponsored entity securities  
U.S. government agency-issued CMOs and REMICs  
Privately-issued CMOs and REMICs  
Montana state and political subdivision government securities  
Out-of-state state and political subdivision government securities  
Industrial development revenue bonds  
Mutual funds  
Corporate bonds  
Commercial paper  
CDs  
Banker's acceptances  
Trust preferred securities

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## **I. U.S. Treasury Issues**

There is no dollar limit on a bank's investment in the following U.S. Treasury securities:

- Bonds
- Notes
- Bills

## **II. U.S. Treasury Bonds and Notes in the Form of Separate Trading of Registered Interest and Principal of Securities (STRIPS)**

There is no dollar limit on a bank's investment in U.S. Treasury STRIPS

## **III. U.S. Government Agency Issues**

### **A. Ordinary debt issues:**

There is no dollar limit on a bank's investment in the following U.S. Government Agency debt issues:

Farm Credit System (FCS)

- Consolidated FCS Bonds
- Federal Land Bank Bonds (FLB)
- Federal Intermediate Credit Bank Bonds (FICB)
- Banks for Cooperatives Bonds (BC)
- Federal Agricultural Mortgage Corporation (FAMC)

Farmers Home Administration (FmHA)

Federal Housing Administration (FHA)

Federal Home Loan Banks (FHLB)

Federal Home Loan Mortgage Corporation (FHLMC)

Federal National Mortgage Association (FNMA)

Student Loan Marketing Association (SLMA)

United States Postal Service (USPS)

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B. U.S. Government Agency Mortgage-Backed Securities (MBS), Collateralized Mortgage Obligations (CMOs) and Real Estate Mortgage Investment Conduits (REMICs)

There is no dollar limit on a bank's investment in instruments issued by:

Federal Home Loan Mortgage Corporation (FHLMC)  
Federal National Mortgage Association (FNMA)  
Government National Mortgage Association (GNMA)  
Federal Agricultural Mortgage Corporation (FAMC)  
FHLMC MBS pass through securities (PCs)  
GNMA I, single issuer pass through PCs; and  
GNMA II, single and multiple issuer pass through PCs.

**IV. Other Approved, Quasi-Government Securities**

Certain other securities are approved for bank investment. They include:

A. No dollar limit:

General Services Administration (Participation certificates)  
Maritime Administration (Bonds & Notes)  
Washington Metropolitan Area Transit Authority (Bonds)

B. Investment limited to 50% of capital and surplus:

Asian Development Bank (Bonds and Notes)  
Financing Corporation (FICO) (Bonds)  
Inter-American Development Bank (Bonds)

Resolution Funding Corporation (REFCORP)  
(Bonds)  
Tennessee Valley Authority (TVA) (Bonds)  
World Bank (Bonds & Notes)

## **V. State, County, and Municipal Issues**

### **A. State General Obligations:**

Banks may invest, without dollar limitation, in the general obligations of any state which is part of the United States of America. Such obligations must be fully guaranteed as to the repayment of principal and interest. Evidence of such a full guarantee includes, but is not limited to, the pledge of the full faith and credit of the state responsible for repayment of the general obligation.

### **B. Montana Political Subdivision General Obligations:**

Banks may invest, without dollar limitation, in the general obligations of any Montana county, city, school district, or other public body with the power to levy taxes. Such obligations must be issued pursuant to the Constitution or statutes of the state of Montana or the charter or ordinances of the respective county or city within the state of Montana. Such obligations must be fully guaranteed as to the repayment of principal and interest. Evidence of such a full guarantee includes, but is not limited to, the pledge of the full faith and credit of the Montana political subdivision responsible for repayment of the general obligation. The issuing body must not have been in default with respect to the payment of principal or interest on any of its obligations within five years preceding the date of the investment.

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C. Out-of-State Political Subdivision General Obligations:

Banks may invest up to 40% of their capital and surplus, per issuer, in the general obligations of any out-of-state political subdivision. Such obligations must be fully guaranteed as to the repayment of principal and interest. Evidence of such a full guarantee includes, but is not limited to, the pledge of the full faith and credit of the out-of-state political subdivision responsible for repayment of the general obligation. The default requirements of paragraph (B) above must be met, and the obligations must have been rated in one of the four highest grades by a recognized national investment rating organization. The rating organization must have been regularly and continuously engaged in rating state and municipal obligations for a period of not less than 10 years. Banks which have branch banks in other states, as that term is defined in 32-1-109(4), MCA, may also invest without limitation in general obligations of the political subdivisions of the states in which the offices are located.

D. State of Montana or Montana Political Subdivision Revenue Bonds:

Banks may invest, without limitation, in revenue bonds issued by the state of Montana or its political subdivisions. Banks which have branch banks in other states, as that term is defined in 32-1-109(4), MCA, may also invest without limitation in revenue bonds issued by those states or their political subdivisions.

E. Out-of-State Revenue Bonds:

Banks may invest up to 40% of their capital and surplus, per issuer, in revenue bonds issued by any other state or its political subdivisions whereby the

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obligations are payable from pledged fee or tax revenue from designated sources. The default requirements of paragraph(B)above must be met, and the obligations must have been rated in one of the four highest grades by a recognized national investment rating organization. The rating organization must have been regularly and continuously engaged in rating state and municipal obligations for a period of not less than 10 years.

**F. Montana Political Subdivision Industrial Development Revenue Bonds:**

Banks may invest up to 20% of their capital and surplus, per issuer, in industrial development revenue obligations issued by a political subdivision of the state of Montana, when repayment is dependent upon a non-governmental obligor and when such issues are in general accord with the commercial lending policy of the bank.

**VI. Corporate Bonds**

Banks may invest up to 20% of their capital and surplus, per issuer, in corporate bonds. These bonds must be investment grade, i.e., rated in one of the four highest grades by a recognized national investment rating organization. Other rating services may be used if the gradations are equivalent to those above, and the rating services are identified by the bank's investment policy. Corporate bonds should be reviewed as necessary to assure the bank's board of directors that bond quality has not fallen below investment grade.

**VII. Mutual Funds**

Under the authority of section 32-1-424(1)(b), MCA, and subject to its restrictions, banks may invest in mutual funds whose shares represent only those United

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States obligations listed in Sections I, II and III. Shareholders must have a proportionate undivided interest in any mutual fund utilized under this rule. Shareholders must be shielded from personal liability for acts or obligations of the mutual fund. The bank's investment policy, as formally approved by its board of directors, must specifically provide for such investments. Prior approval of the board of directors must be obtained for initial investments in specific mutual funds and recorded in the official board minutes. Procedures, standards and controls for managing such investments must be implemented prior to the investment being made.

#### **VIII. Other Approved Investments**

Certain other instruments which may have investment characteristics are approved for state-chartered banks. They are the following:

##### **A. Bankers' Acceptances:**

Banks may invest up to 100% of their capital and surplus, per accepting bank, in bankers' acceptances.

##### **B. Certificates of Deposit or Deposit Notes:**

Banks may invest, on a per issuer basis, in certificates of deposit (CDs) or deposit notes from insured financial institutions up to the greater of 20% of their unimpaired capital and surplus or the maximum amount of federal deposit insurance available for deposits. This limitation applies to the deposit and any accrued interest.

##### **C. Commercial Paper:**

Certain other instruments which may have investment

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characteristics are approved for state-chartered banks. They are the following:

Banks may invest up to 20% of their capital and surplus, per issuer, in commercial paper provided the commercial paper is rated A1 or P1, at the time of purchase, by a recognized national investment rating organization. Equivalent ratings from other established and generally recognized national rating organizations may be substituted.

D. Privately Issued CMOs and REMICs:

Banks may invest up to 20% of their capital and surplus, per issue, in privately issued CMOs and REMICs; and privately issued CMOs and REMICs will not represent more than 40% of a bank's investment portfolio, or more than 400% of a bank's unimpaired capital and surplus, whichever is the lesser.

E. Trust Preferred Securities:

Banks may invest up to 20% of their capital and surplus, per issuer, in trust preferred securities. These bonds must be investment grade, i.e., rated in one of the four highest grades by a recognized national investment rating organization. Other rating services may be used if the gradations are equivalent to those above, and the rating services are identified by the bank's investment policy.

**IX. Debt Securities Acquired in Satisfaction of Debts Previously Contracted**

Debt obligations received by a bank in good faith, in satisfaction of debts previously contracted, are not subject to the limitations of applicable sections of these rules, if the book value of such obligations in excess of the limitations of these rules is reduced to the amount allowed within six months after the date the obligations are acquired.

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